China shows little patience for U.S. currency pressure

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A senior Chinese official said on Thursday that China would not bow to pressure from the United States to revalue its currency, which President Obama says is kept at an artificially low level to give China an unfair advantage in selling its exports.

The official, Ma Zhaoxu, a Foreign Ministry spokesman, said at a regular news conference here that “wrongful accusations and pressure will not help solve this issue.”

Mr. Ma was reacting to remarks on trade that Mr. Obama made on Wednesday when he met with Democratic senators in Washington. Mr. Obama stopped short of saying China manipulates its currency, but his words on China’s economic policies were harsh — the United States, he said, had “to make sure our goods are not artificially inflated in price and their goods are not artificially deflated in price; that puts us at a huge competitive disadvantage.”

Economists agree with that assessment. They say that the Chinese currency, the renminbi, is undervalued by 25 to 40 percent compared to the dollar and other currencies. The gap is wider than at any time since July 2005, when the Chinese government, under pressure from the Bush administration, decided to do away with the renminbi’s peg to the dollar and allow the currency to float in a narrow band against the dollar and other currencies.

The renminbi appreciated 21 percent, but since July 2008 it has remained at the same value — today, one dollar equals about 6.83 renminbi, also called the yuan.

“Judging from the international balance of payments and the currency market’s supply and demand, the value of the renminbi is getting to a reasonable and balanced level,” Mr. Ma said on Thursday.

The sharp exchange over China’s currency is only the latest symptom of rising tensions in American relations with China. Internet censorship, hacking attacks directed at American companies, arms sales to Taiwan and the pending visit of the Dalai Lama to Washington have all cropped up in the last month as points of conflict. China is exhibiting a brash sense of confidence as its economy continues to boom while much of the world remains mired in a recession.

On economics, Chinese officials now regularly lecture their American counterparts on the need to maintain the value of the American dollar. China, which has more than $2.4 trillion in foreign exchange reserves, is the largest holder of American debt. On Wednesday, Xinhua, the official state news agency, .the official state news agency said Chinese economists were concerned that the American government, suffering from a record budget deficit, could print more dollars and issue more bonds, eroding the value of the dollar.

The finger-wagging from the American side is almost certain to intensify too. With midterm elections this fall, Mr. Obama is under pressure to alleviate the high unemployment rate in the United States. Mr. Obama said last week in his State of the Union address that he hoped to double American exports within five years.

In China, the export industry is a large employer in the coastal regions and draws hordes of migrant workers from interior provinces. Exports have slowed considerably since the global financial crisis began, and Chinese leaders and economists have been saying that domestic consumption should become a larger part of the economy.

Last year, the Chinese economy grew by 8.7 percent, surpassing the 8 percent benchmark set by the government and indicating that China was managing to push through the global

recession with little damage. A large driver of the growth was domestic spending — the Chinese government announced in November 2008 a stimulus package worth $585 billion.

But the spending, along with in-flows of foreign currency through private investments and speculation, what some economists call “hot money,” is fueling inflation. The consumer price index in the fourth quarter of 2009 rose 1.9 percent. Fears of an overheated economy could lead the Chinese government to revalue the renminbi later this year to help contain inflation.

In late January, Jim O’Neill, the chief economist at Goldman Sachs, told Bloomberg News that he expected the Chinese government to make a one-off revaluation of the renminbi, letting it appreciate by at least five percent before the end of 2010. He said the revaluation would happen suddenly, without any warning from Chinese leaders.

Reopening the battle with Beijing over its currency may pay political dividends for Mr. Obama at a time of double-digit unemployment and growing fears that China is stealing American jobs. But experts say the president will have even less leverage over Beijing than President George W. Bush did. Mr. Bush prodded China for years to adjust its exchange rate with little success.

China, they say, is determined to reignite its export machine after a global recession that sapped demand for Chinese goods. A cheap currency is vital to that goal. And as indicated by Mr. Ma’s statement on Thursday, China’s leaders have grown impatient with lectures on economic policy from their chief debtor, the United States.

“It will be like water off a duck’s back,” said Nicholas R. Lardy, a China expert at the Peterson Institute for International Economics. “They’re puzzled by the criticism. They think they should be praised for keeping their currency stable at a time of global turmoil.”Criticizing China’s policy, however, is likely to worsen a relationship already frayed by irritants on both sides.

In two weeks, Mr. Obama is expected to meet with the Dalai Lama, the Tibetan spiritual leader, over the objections of the Chinese, who condemn him as a subversive. The administration forged ahead with sales of weapons to Taiwan, drawing an angry blast from Beijing, which regards Taiwan as a breakaway province. Secretary of State Hillary Rodham Clinton criticized China for censoring the Internet, in the wake of Google’s allegations about hacking.

For its part, the United States is frustrated that the Chinese will not back tougher sanctions against Iran over its nuclear program. And China has resisted American initiatives on climate change policy, turning the recent climate meeting in Copenhagen into a diplomatic drama.

The administration has struggled to prevent the ill will from any single issue from contaminating the broader relationship. “We can’t pick the timing of when an issue becomes important,” said a senior official, who spoke on the condition of anonymity because of the delicacy of the matter.

Exchange rates are an arcane subject, harder to explain than a meeting with the Dalai Lama. But they influence easy-to-understand issues like the competitiveness of American exports and job security.

“The currency issue has the potential to become a very hot political issue,” said Kenneth G. Lieberthal, who worked on China policy in the Clinton White House. “We’re in significant danger of hitting a very rough patch in trade relations, in the latter part of this year.”

Fonte: New York Times, New York, Feb. 4th 2010, World, online.